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URALTRUBMASH' UNIQUE SELLING PROPOSITION: INCREASING COMPETITIVENESS IN THE RUSSIAN B2B MARKET

This case was written by Vera A. Rebiazina (Professor, Department of Marketing, Graduate School of Business of Higher School of Economics). It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was made possible by the co-operation of Uraltrubmash OJSC.

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ABSTRACT

The case is focused on the main changes in marketing strategy of the “Uraltrubmash” company which happened due to the implementation of new production technology in 2006. JSC “Uraltrubmash” is a tube rolling plant, operating in the Russian market since 1994. Modernization of the plant and changes in production technologies allowed the company to offer unique selling proposition to its clients, to differentiate from competitors and find marketing niches in the Russian b2b market, as well as significantly improve the quality of customer service.

In 2014, the company is Russia's largest manufacturer of precision tubes, with leading positions in several niche markets. The implementation of new production technology in 2006-2009 resulted in changing of many areas including the plant's marketing strategy and had positive impact on the image of the plant. The objective of the current marketing strategy of “Uraltrubmash” is aimed at increasing the loyalty of existing customers, capturing new markets in Russia and entering European market. At the moment top management of the company is not satisfied with its marketing strategy, as up to now the plant was focused on improving product quality and optimizing production processes, while marketing was viewed as a second priority and as a background function. However, the existing marketing strategy has to be changed as the company plans to enter European market.

“URALTRUBMASH” HISTORY

In 1993 the “Lukoil” company together with the Ural Scientific Tube Research Institute decided to establish a company to produce special tubes that were not produced by Russian tube industry, but were highly needed for Russian oil and gas sector. According to this decision the “Uraltrubmash” company was established. JSC “Uraltrubmash” is a tube rolling plant, operating in the Russian market since 1994.

The current owners bought the plant in 2005 when “Lukoil” was in the process of non-core assets selling. Since 2005 “Uraltrubmash” is on the new phase of development, producing new for Russian b2b market products, improving technology and quality and focusing on the most demanding international quality standards. In 2005 the plant significantly lost to competitors in quality, but the main advantage of the company was a unique team of specialists.

Since 2006 “Uraltrubmash” approved and implemented a program of production modernization and new technology implementation. Key competitive advantage of the plant is in the unique technology of tubes production that results in offering unique selling proposition to its clients.

“URALTRUBMASH” AFTER MODERNIZATION AND NEW TECHNOLOGY IMPLEMENTATION

With more than 500 employees, the “Uraltrubmash” company is Russia's largest manufacturer of precision tubes, with leading positions in several niche markets. The company produces a range of different tubes for oil and gas industry, mechanical engineering, aerospace, medical equipment and instrumentation. The main purpose of the plant is the dynamic development along with the constant improvement of product quality. JSC

“Uraltrubmash” produces high-quality products based on the latest technologies and the latest scientific developments.

In 2006, the company started to implement a long-term program of technical development, including thorough modernization of existing facilities, new technology implementation, improving methods of analysis and control. The company constantly carries out research and development in the field of pipe production, based on a comprehensive analysis of the customer needs. The company uses a unique, non-standard for Russia technological equipment to produce tubes. Modern high-precision control schemes ensure compliance with the developed technology and guarantee the quality stability.

As stated at the company report for 2012, net profit of “Uraltrubmash” increased by 90.33 times to 14.18 million rubles in 2012. In 2012, sales of “Uraltrubmash” increased by 25.46% to 381.62 million rubles from 304.16 million rubles in 2011. Profit from sales of the company increased by 2.37 times to 33.49 million rubles compared to 14.13 million rubles in 2011 (Appendix 1).

Now the plant produces tubes that are unique to Russia (coiled tubing), similar plants exist only in the USA and China. Virtually all products of the company can be seen as import substitution. Application of long pipes in coils during repair works in oil and gas industry shortens duration of repair for more than 5 times. It also reduces the cost of safety control and helps to protect environment.

“Uraltrubmash” is focused on continuous improvement of product quality. Quality of products is tested by time and are certified according to Russian and international standards. The plant has Diploma of National Quality Award, is the winner of competition "20 Best Products of the Chelyabinsk Region" in 2011 and the "100 Best Products of Russia" in 2013. Enterprise quality system complies with the international standard ISO 9001:2008 (Appendix 2).

“URALTRUBMASH” PRODUCTION AND ITS UNIQUE SELLING PROPOSITION

“Uraltrubmash” is the only Russian company producing long pipes in coils. Because of specific coiled tubing technology of production the plant offers unique selling proposition in the Russian b2b tube market. The main products of the factory include lengthy tubes in coils (coiled tubing), which are used for drilling and development of oil and gas wells, as well as for piping (Appendix 3).

These tubes are mainly used by companies in the oil and gas sector and they are the main clients of “Uraltrubmash”. The specific properties of pipes include 5 km length, seamless production and selection of the diameter according to the needs of the client. Coiled tubing is very easy and quick to stow, it is soft, does not tear and is made of special grade steel. The cost of such tubes is higher than of usual tubes but coiled tubing accelerates the process of setting the tube as welding is not needed.

“Uraltrubmash” is the only coiled tubing manufacturer in Russia. The company developed import-substituting production of unique tubes in Russia and achieved the quality that meets the highest international standards, including the standards of the American Petroleum Institute (API). The production process was improved and “Uraltrubmash” carried out a set of measures for its modernization.

The plant also produces very small in diameter capillary tubes, which are used in the aviation industry and for the production of medical equipment. In 2010 Uraltrubmash mastered the production of tubes for the cardan shafts. Tubes for the production of cardan shafts are new direction for the company. The quality of products meets the best international standards. Regular clients of "Uraltrubmash" are "KAMAZ" and "Belcard", well-known enterprises in Russia and Belarus.

In 2006 the plant had a developed production system and staff of employees with the unique experience. The plant took over the Soviet production base, but the technology was not perfect. New owners contacted their American counterparts to up-grade the technology; it can be called industrial consulting and benchmarking. American partners had been working at the plant for about a year; they readjust the entire process of production, upgraded technology and purchased new equipment and machinery to produce tubes that meet world standards of quality. As a result, the plant is currently able to fully satisfy the demand for this type of tubes in Russia and make import substitution.

"Uraltrubmash" doesn't have direct competitors in Russia because of complexity of production and equipment modernization. Large monetary investment in upgrading equipment is required for the production of such complex innovative products as capillary tubes, and their profitability is not so high. There is one Russian company producing drive shafts, but it has no strong influence on the development of "Uraltrubmash". There are competitors in China, but they are much inferior in quality. Also there are some competitors in the USA, but their production facilities cover only the demand in domestic market.

MARKETING STRATEGY OF "URALTRUBMASH"

Marketing strategy of the company was completely revised in 2009 after the implementation of the new production technology. Three years after the purchase of the plant, strategic decision to look for new marketing niches was taken in order to diversify the existing markets in sectors not related to oil and gas industry. As the market of coiled tubes for oil and gas sector in Russia is rather small, the decision was taken to diversify the production tubes at "Uraltrubmash" on the basis of existing technology with minimal adaptation of production process. As it was already mentioned, the first niche found was the tube for drive shafts. In 2010 "Uraltrubmash" gained significant share of drive shafts market because of consistently high quality and favorable supply conditions.

So, as a result of the diversification strategy two new niches were revealed: firstly, the production of tubes for the drive shafts, and secondly, the capillary tube for the aviation industry. The company produces the tubes and covers all the Russian aircraft engines production market. These are very narrow niches, but they helped the company to significantly diversify markets and identify new directions for development despite the narrow specialization of the plant.

According to Olga Prokofeva, Member of the Board, the new marketing strategy was developed as a result of synergetic effect of two directions of the plant development. Firstly, it was the use of internal knowledge, as the staff possessed unique knowledge of plant's specific products. The market of coiled tubes is quite narrow, so the plant's specialists understood in what sectors this particular product can be applied. Secondly,

benchmarking in the field of tubes production in USA was conducted and the experience of the American companies' best practices in the field of marketing and distribution system in tube production sector was studied and then partly applied at "Uraltrubmasg".

At first, the marketing strategy of the plant was focused on attracting new clients in the Russian oil and gas sectors, but now marketing strategy of the company is aimed at customer retention. Since 2007, the number of consumers of "Uraltrubmash" has increased from 82 to 98. In 2013, the plant sold its products to 98 consumers, 17 of which bought 90% of all production. For example, at the moment the plant serves almost all demand in coiled tubes of the Russian giant oil company "Lukoil" and several others giant companies.

Customer retention strategy resulted in high retention rate of the customers – with more than 90% of all the customers the plant "Uraltrubmash" has cooperated for more than 5 years. For the 2013 statistics of the customer base is the following: 31% of consumers are new for the plant, with 34% of all consumers the plant cooperate for 2-4 years, and with 35% of all customers 'Uraltrubmash" has relationships for more than 5 years.

In the past two years, the number of new customers in the total number of consumers of "Uraltrubmash" was 45%. Dynamics of change in the number of new customers in the total number of consumers of "Uraltrubmash" is shown in Figure 1.

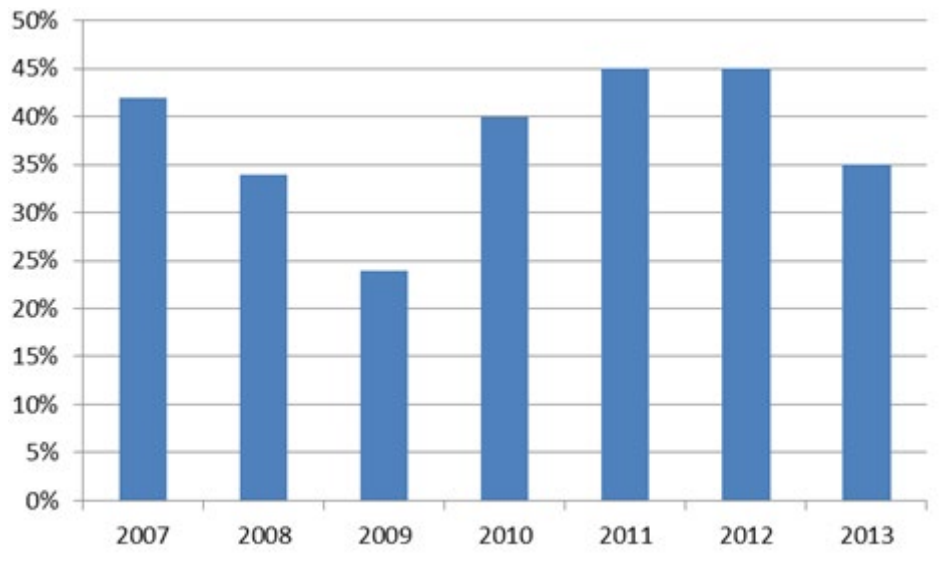


Figure 1. Amount of new customers of Uraltrubmash 2007-2013, %

The company faces some challenges when dealing with customers: the need for continuous improvement of product quality, increasing the speed of production and logistics, as well as the possibility of industry diversification. Logistics is an important issue, as logistic costs comprise up to 40% of the gross value of the product. There are also some challenges concerning the market as a whole: the need of general favorable economic climate creation in Russia as well as development of customs regulation and infrastructure in general, and logistics in particular. As for the regulators in the market – there are some problems with importing raw materials as the company spends up to two

months for custom formalities and this significantly extends the production cycle and the ability to optimize business processes.

MARKETING MIX OF "URALTRUBMASH"

After the purchase of the plant in 2006 all the elements of the marketing mix were transformed:

- Product – the logo, style and corporate colors were changed, a brand in the field of capillary tubes was created and became recognizable, extended product lines were formed.
- Price – based on the results of industrial consulting pricing was optimized by reducing the cost of the product. According to Olga Prokofeva, Member of the Board, in b2b market the most important issue is not to bring down the price as the price is an indicator of quality, but to find the right balance of price and quality. For example, coiled tubes are more expensive than regular tubes, so “the best quality for a right price” strategy is especially important.
- Placement – there are limited distribution channels opportunities as the company works in the b2b sector. At the moment this is a direct channel from the producer to the final customer, no intermediaries are involved. Although there were attempts to build a distribution network, it was not successful. The sales department of the plant is situated in Moscow and operates in the form of Trading House that is common for Russian b2b market.
- Promotion – initially products were promoted exclusively through sales team. Sales representatives spoke with key customers and purchasing department, personal contacts database was formed. Personal communication still plays a big role, as the product should be adapted to the needs of customers and to their production process. Also there were some advertising and articles in specialized industry magazines. However, advertising is not the key factor for successful marketing, because the market is designed so that the personal contacts with the potential client and references are more important. This is direct sales strategy in the b2b market. The plant annually participates in trade fairs – for example, in Metal Expo exhibition. Now when the company plans to enter European market, it is going to participate in international tube exhibitions in Europe. Participation in exhibitions is a key to attract new clients.
- Process – production processes are constantly optimized as the company aims to meet the international quality standards. However, the plant do not always have working capital, as the plant grows only at its own expense, with almost no involvement of external debt financing.
- People – the team that has been working at the plant for 20 years since the founding of the factory in 1993 is one of the competitive advantages of “Uraltrubmash”. As Olga Prokofeva, Member of the Board, states “Speaking about personnel, this market is quite difficult to find new employees. Human capital is one of the most important asset, as the employees know the production technology, understand how it can be modified and in which industries could be applied”.

3 years after buying the company in 2006 can be called transition period, when the company adopted the new marketing strategy. During the process of implementing a new marketing strategy there were some difficulties at the operational level: first, outdated

equipment, which had to be upgraded, and secondly, the difficulty of finding new staff, and thirdly, the problem of finding a supplier of raw materials in Russia, that is, the suppliers localization. Suppliers of raw materials should be able to provide a special type of steel with grade and high quality. The main supplier is a French company ArserolMittal, as the Russian suppliers cannot meet the high level requirements for the quality of raw materials. As a result, the company receives high quality raw material, but raw material delivery process takes a long time due to customs clearance and logistics.

MANAGING RELATIONSHIPS WITH PARTNERS

As for the relationship with partners, the main partners for the plant are the suppliers. There are several steps in building relationships with a supplier: search for contacts, provision of technical specification that describes the need of the company, then initial testing at the factory – production test batch, and finally making decisions about the quality of raw materials and if it meets requirements of the “Uraltrubmash” company.

Advertising agencies are not involved by the plant because of the high specificity of the market. At this point contacts are established directly with the client, because it is very important to understand the characteristics of the client and to be constantly in contact with them. Therefore, sales and marketing departments work in tandem. In total factory employs 320 people, 25 of them are key sales/marketing administrative staff working in marketing and sales department and are in constant contact with the clients.

EVALUATION OF MARKETING ACTIVITIES

For evaluating marketing activities the company measures profitability, new customers gained, and market share increase (at the moment the market share of the company in Russia is about 65%).

The company applies the following criteria to rank customers:

- volume of sales;
- intensity of consumption (for example, drive shafts are purchased annually by the client, and the capillary tubes only every 3-4 years);
- prospects for the development of relationships with customers.

Analysis of customer satisfaction is not carried out systematically, but the problems with the clients are identified and addressed during the fulfillment of the order. This is a particulate feature of doing business in Russia – there are no prescribed procedures and business processes, many problems are solved ad hoc and on the go while management decisions have to be made in a turbulent environment.

“URALTRUBMASH” FUTURE MARKETING STRATEGY DEVELOPMENT

The objective of the current marketing strategy of “Uraltrubmash” is aimed at increasing the loyalty of existing customers, capturing new markets in Russia and entering European market. At the moment top management of the company is not satisfied with its marketing strategy, as up to now the plant was focused on improving product quality and

optimizing production processes, while marketing was viewed as a second priority and as a background function. However, the existing marketing strategy is going to be changed as the company plans to enter European market. Currently, there are several key customers of “Uraltrubmash” in Europe. The most important question in developing of the marketing strategy for the company concerns value for money proposition and correct positioning of the “Uraltrubmash” company on the Russian b2b market.

APPENDIX 1

URALTRUBMASH, PROFIT AND LOSS STATEMENT

Uraltrubmash, Profit and loss statement, x1 000 RUB					
Items	2008	2009	2010	2011	2012
Operating income & expenses					
Revenues (net) from sales of products and services (less VAT, excise taxes and other similar obligatory payments)	193 174	224 650	263 687	304 164	381 618
Cost of goods sold (COGS)	172 139	187 811	211 586	248 104	309 950
Gross profit	21 035	36 839	52 101	56 060	71 668
Administrative expenses	20 978	29 238	41 115	41 934	38 180
Operating profit (loss)	57	7 601	10 986	14 126	33 488
Non-operating profit					
Interests receivable				5	
Interests payable			6 029	12 262	15 309
Other gains	16 377	60 991	23 107	15 426	16 229
Other expense	16 350	58 693	25 480	16 037	15 303
Profit (loss) before income tax	84	9 899	2 584	1 258	19 105
Income tax expense				701	4649
Profit (loss) from ordinary activities			2332		
Net profit (loss) for the year	64	9 796	252	157	14182

URALTRUBMASH QUALITY CERTIFICATE ISO 9001: 2008



APPENDIX 3

TUBES IN COILS

